

Message Text

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 9071

INFO AMEMBASSY MOSCOW

AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 897

TOKYO FOR REGFISHATT

E.O. 11652: GDS

TAGS: EFIS, KS, UR, US

SUBJ: SOVIET/ROK/US PREPOSITIONING FOR ANNOUNCEMENT OF US JOINT
VENTURE FISHING POLICY

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SUMMARY: THIS MESSAGE REPORTS AND ANALYZES THE BACKGROUND
AND STATUS OF SOVIET EFFORTS TO FIND AN EXPORT MARKET FOR
THE BULK OF ITS ALASKA POLLOCK QUOTA FROM THE US FISHERY
CONVERSATION AND MANAGEMENT (FCM) ZONE. THROUGH THE PROPOSED
BELLINGHAM/USSR JOINT FISH PURCHASING VENTURE, ARRANGEMENTS
HAVE BEEN MADE TO PROCESS SOVIET POLLOCK IN KOREA
FOR EXPORT TO THE US MARKET IN COMPETITION WITH THE
PROPOSED (KOREA MARINE INDUSTRY DEVELOPMENT CORP.) KMIDC/
DAVENNEY JOINT FISHING VENTURE. ISSUES RAISED MERIT
CONSIDERATION IN CONNECTION WITH THE YET TO BE ANNOUNCED
USG POLICY ON JOINT FISHING VENTURES AND ACTIONS TAKEN
THEREAFTER. END SUMMARY

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1. ACCORDING TO A REPORT WHICH IS UNVERIFIABLE HERE,
SOVRYBLOT, A SOVIET FISHING COMPANY, HAS BEEN SEEKING A
FOREIGN MOARKET FOR ITS US FCM ZONE CATCH QUOTA FOR
ALASKA POLLOCK. JAPANESE TRADING FIRMS MARUBENI, MITSUBISHI
AND ITOCHU HAVE REPORTEDLY BEEN WILLING TO BUY POLLOCK FROM
SOVIETS BUT ROK PROCESSING WAS UNATTRACTIVE (REFTEL B) AND
GOJ HAS PROHIBITED IMPORT AS A PROTECTIVE MEASURE FOR JAPANESE

FISHERMEN. NEVERTHELESS, THE TRADING FIRMS HOPE TO BE ALLOWED TO BARTER JAPANESE HAKE FOR SOVIET POLLOCK, AND SUCH AN OFFER REMAINS PENDING.

2. THERE ARE ONLY FOUR POSSIBLE READY MARKETS FOR POLLOCK. FIRTS IN THE USSR DOMESTIC MARKET WHERE SOVIETS DO NOT USE POLLOCK FOR HUMAN CONSUMPTION BUT GRIND IT INTO FISHMEAL. SECOND IS JAPAN WHERE POLLOCK IS PROCESSED INTO POPULAR FISH SAUSAGE CALLED KAMABOKO. THIRD IS KOREA WHERE POLLOCK IS A POPULAR TRADITIONAL SOURCE OF PROTEIN MARKETED IN THE ROUND AS WELL AS IN DRIED AND OTHER FORMS. KOREA HAS ALSO DEVELOPED THE WORLD'S ONLY EXPORT PROCESSING INDUSTRY FOR FILLETING AND FREEZING POLLOCK INTO FISHBLOCKS. LASTLY IS THE US WHERE POLLOCK IS CONSUMED IN THE PROCESSED FORM OF FISHSTICKS AND/OR FISH AND CHIPS. THE US MARKET HAS BEEN THE ONLY ONE IN THE WORLD FOR FISHBLOCKS OF WHICH 85 PERCENT OF 1976 IMPORTS OF ABOUT 40,000 TONS WERE PURCHASED BY MRS PAUL'S KITCHENS OF PHILADELPHIA AND THE REMAINDER BY THE FAST FOOD INDUSTRY. FISH IMPORTS ARE PROHIBITED BY ROKG AND GOJ ALLOWS IMPORT ONLY AS PROVIDED BY INTERGOVERNMENTAL AGREEMENTS.

3. THE ALASKA POLLOCK PROCESSING INDUSTRY IS UNIQUE TO THE ROK AND NOT REPEAT NOT ECONOMICALLY FEASIBLE IN EITHER THE US OR THE USSR BECAUSE THE FISH IS OF LOW VALUE AND PROCESSING IS LABOR INTENSIVE. ENDEMIC PRESENCE OF PARA-
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SITIC WORMS IN POLLOCK REQUIRES HIGH QUALITY CONTROL IN THEIR REMOVAL BY LINES OF WORKERS WITH MICROSCOPES AND PINCERS. THUS, PRESENT NTB'S AND ECONOMIC REALITIES PRECLUDE EXPORT OF POLLOCK BY SOVS.

4. HOWEVER, BELLINGHAM COLD STORGAGE CO OF BELLINGHAM, WASHINGTON, IN ANTICIPATION OF COMMERCE APPROVAL OF ITS PROPOSED JOINT VENTURE WITH SOVRYBLOT, HAS ARRANGED FOR KOREAN PROCESSING OF SOVIET POLLOCK INTO FISHBLOCKS FOR EXPORT TO THE US. THE BELLINGHAM/USSR JOINT VENTURE, KNOWN AS THE MARINE RESOURCES CO INC (MRC), HAS A COMMITMENT FROM MRS PAUL'S KITCHENS TO PURCHASE ANY AMOUNT OF FISHBLOCKS IT CAN SUPPLY.

5. SOVRYBLOT FACTORY SHIPS IN THE USFCM ZONE WILL DRESS 100,000 TONS OF ALASKA POLLOCK FROM SOVIET CATCHBOATS. ("DRESSING" IS REMOVAL OF HEAD AND TAIL, GUTTING, SPLITTING AND BONING WHICH REDUCES WEIGHT BY ONE-HALF.) RESULTING 50,000 TONS OF DRESSED POLLOCK WILL BE TRANSFERRED AT SOVIET FAR EAST PORT, SUCH AS NAKHODKA, FOR DELIVERY TO INCHON. MRS PAUL'S REPORTEDLY HAS ESTABLISHED A FIRM, SEAGLOBAL OF SEATTLE, ON BEHALF OF MRC TO ARRANGE

TRANSPORTATION FROM NAKHODKA TO INCHON, COMPLETION OF PROCESSING AT SILLA TRADING CO FACILITY AND REEXPORT TO SEATTLE OF THE 20,000 TON FINAL YIELD IN FISHBLOCKS FORM THE ORIGINAL 100,000 TONS OF POLLOCK. SILLA CONTRACTED WITH SEAGLOBAL AT \$300 PER TON AFTER RECEIVING ROKG PERMISSION TO PROCESS THE SOVIET FISH UNDER BOND.

6. ROKG DECISION TO AUTHORIZE PROCESSING WAS ADVOCATED BY FOREIGN MINISTRY (MOFA) ECON OFF BUREAU DIR GEN HAM TAE HYUK AGAINST INITIAL OPPOSITION BY KCIA. HE ARGUED THAT COOPERATION WITH SOVIETS MIGHT PROVIDE THE MEANS OF GAINING REENTRY OF ROK FISHERMEN INTO KAMCHATKA AREA. OFFICE OF FISHERIES (OFA) DIR GEN (ADM RET) SHIN TAE YOUNG, FACED WITH MOFA/KCIA POSITION, AND DESIROUS OF RESTORING EMPLOYMENT
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AT PROCESSING PLANT, APPROVED SILLA'S REQUEST. HOWEVER, IN VIEW OF ROKG COMMITMENT TO FINANCIAL SUPPORT FOR THE PROPOSED KMIDC/DAVENNEY JOINT VENTURE IN ALASKA, HE STIPULATED THAT PERMISSION WOULD BE WITHDRAWN IF ROK INTERESTS WERE ADVERSELY AFFECTED.

7. ROKG POLITICALLY MOTIVATED APPROVAL OF SILLA TRANSACTION PLACES IT IN THE ANOMALOUS POSITION OF FACILITATING SOVIET PENETRATION OF WHAT HAS BEEN AN EXCLUSIVE KOREAN EXPORT MARKET. AT THE SAME TIME, IT CARRIES A FINANCIAL COST, BECAUSE, TO THE EXTENT THAT THE PROFITABILITY OF KMIDC'S JOINT VENTURE IN ALASKA MIGHT BE UNDERCUT BY SOVIET COMPETITION, THE ROKG WOULD HAVE TO COVER THE LOSSES. UNDER THE

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 9072
INFO AMEMBASSY MOSCOW
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C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 897

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TERMS OF ROKG FINANCIAL GUARANTEES FOR THE KMIDC/DAVENNEY JOINT VENTURE (REFTEL A), KMIDC MUST PROCESS FOR EXPORT ONE HALF OF THE FISH IT BUYS FROM AMERICAN FISHERMEN IN ORDER TO DEFRAY THE HIGH COSTS TO WHICH IT IS COMMITTED. ITS COSTS WILL START AT THE \$140 PER TON PURCHASE PRICE TO US FISHERMEN TO WHICH MUST BE ADDED THE COSTS OF ON BOARD PROCESSING, TRANSPORTATION TO PUSAN AND SHORE PROCESSING. KMIDC ALSO HAS A COMMITMENT FROM MRS PAUL'S TO BUY ANY AMOUNT OF FISHBLOCKS IT CAN SUPPLY AT MARKET PRICES. THE CURRENT PRICE IS \$.59/LB F.O.B. PUSAN. BOTH MRC AND KMIDC ARE COMMITTED TO SELL THEIR FISHBLOCKS TO MRS PAUL'S. BUT, MRC WILL PRESUMABLY BE FREE TO ADJUST ITS SELLING PRICE WITHOUT REFERENCE TO TRUE SOVIET HARVESTING COSTS. THEREFORE, EITHER MRC OR MRS PAUL'S COULD SET THE MARKET PRICE AND KMIDC MIGHT VERY WELL FIND ITSELF FACING NON-MARKET PRICE COMPETITION RENDERING IT INCAPABLE OF MEETING ITS CONTRACT TO BUY UP TO 130,000 TONS OF POLLOCK FROM ALASKAN FISHERMEN AND THEREBY DIMINISHING OR ELIMINATING US EMPLOYMENT PROSPECTS.

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8. ROK FISHING EXPERTS APPEAR TO BE BAFFLED BY THE ROKG APPROVAL OF SILLA'S TRANSACTION, AND, ON JANUARY 26, NINE MEMBERS OF THE NORTH PACIFIC FISHERIES DEVELOPMENT ASSOCIATION JOINED KMIDC IN FILING A PETITION AGAINST IT. IN REACTION TO INFORMATION ON THE MRC PLAN, DAVENNEY ASSOCIATES, KMIDC'S ALASKAN PARTNER, HAS REPORTEDLY REQUESTED THE STATE DEPARTMENT TO SEEK A 100,000 TON POLLOCK QUOTA IN THE SOVIET FCM ZONE AS A DEFENSIVE OFFSETT AND WE UNDERSTAND THAT THE DEPARTMENT HAS DELIVERED INQUIRY TO SOVIET GOVERNMENT.

9. EMBASSY COMMENT: WE UNDERSTAND THAT EMPLOYMENT AT MRS PAUL'S PENNSYLVANIA, MARYLAND AND NEW JERSEY PLANTS HAS DROPPED IN CONSEQUENCE OF DECLINE IN IMPORTED FISHBLOCKS. THEREFORE SUCCESS OF MRS PAUL'S EFFORTS TO DEVELOP SOURCES OF SUPPLY WILL BE OF SHORE-BASED EMPLOYMENT BENEFIT HOWEVER ATTENUATED BY ROKG OPTIONS. FROM THE US POINT OF VIEW AS WE SEE IT, THE KMIDC/DAVENNEY JOINT VENTURE WILL BENEFIT ALASKAN FISHERMEN DIRECTLY BY PROVIDING THE BASIS FOR THEIR ENTRY AND EXPANSION INTO A NEW FISHERY AND PERHAPS WILL SET A

PATTERN FOR OTHER LOW VALUE FISHERIES WHERE NO ECONOMIC POSSIBILITY
OF US SHORE FACILITY PROCESSING EXISTS. SOVIET ACTIVITIES
WOULD SEEM TO COMPETE WITH THIS OPPORTUNITY FOR US FISHERMEN.

10. HENCE, IN OUR VIEW REQUIREMENTS OF FCM ACT AND US
INTERESTS ARE BEST SERVED BY EARLY APPROVAL OF KMIDC/DAVVENNEY
JOINT VENTURE. OVER THE LONGER RUN, MOREOVER, WE EXPECT
THE JOINT VENTURE, WHICH BENEFITS BOTH AMERICAN AND KOREAN
WORKERS, WILL BE ALLOWED TO EXPAND AT THE COST OF RUSSIAN
POLLOCK FISHING. SINCE LATTER USE POLLOCK TO MAKE FISH-
MEAL, HUMAN CONSUMPTION WOULD BE EXPANDED BY SUCH A DEVELOP-
MENT AND WOULD CONSTITUTE AN ADDED REASON TO FAVOR KOREAN
JOINT VENTURE.

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